

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 196 – HB 190

March 5, 2013

SUMMARY OF ORIGINAL BILL: Enacts the “Tennessee Choice and Opportunity Scholarship Act”. Authorizes eligible students to apply for and receive scholarships to attend participating non-public schools. Requires students to meet certain eligibility requirements including, but not limited to, being zoned for or being currently enrolled in a school that is identified as being in the bottom five percent of schools in overall achievement data and meeting age and income requirements. Requires non-public schools to provide an annual notice of intent to participate to the Department of Education (DOE) and to comply with all other participation requirements, which include, but are not limited to, accepting the scholarship amount as payment in full for the cost of tuition and fees that would have been otherwise charged to the student; submitting to the DOE an annual financial audit; and conducting criminal background checks for employees.

Requires the DOE to administer the program and sets forth specific departmental administrative tasks including, but not limited to, providing annual notice of eligibility to the parents of eligible students; determining and approving initial and continuing eligibility for participating schools; and remitting scholarship payments to participating schools. Authorizes scholarship students to enroll in another participating school without loss of eligibility, if a participating school is deemed ineligible.

Requires the annual scholarship amount to be the lesser of the participating school’s annual tuition and fees or the amount of the required state and local Basic Education Program (BEP) funding per pupil. Requires students receiving the scholarship to continue to be counted toward the average daily membership (ADM) of the local education agency (LEA). Requires LEAs to continue funding their portion of the required BEP per pupil expenditure for participating students. Authorizes LEAs to retain any local funding above and beyond the BEP local match requirement. Requires any remaining funds to be retained by the DOE and the LEA, with specific amounts based on the LEA’s state and local BEP funding share division, if a participating school’s tuition and fees is less than the required state and local BEP per pupil expenditure (PPE).

Caps the scholarship program at 5,000 scholarships for FY13-14; at 7,500 scholarships for FY14-15; at 10,000 scholarships for FY15-16; and at 20,000 scholarships for FY16-17 and subsequent fiscal years.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$173,000

Other Fiscal Impact – There will be annual shifts of state and local BEP funding from local education agencies to the non-public participating schools of the proposed program. Approximately \$15,842,500 is estimated to shift in FY13-14; \$24,356,300 is estimated to shift in FY14-15; \$33,285,000 is estimated to shift in FY15-16; \$68,230,000 is estimated to shift in FY16-17; and an amount estimated to exceed \$68,230,000 is estimated to shift in FY17-18 and subsequent fiscal years

SUMMARY OF AMENDMENTS (003697, 003699): Deletes all language after the enacting clause and makes various substantive changes to the original bill. Amends Section 3 such that in addition to meeting all other requirements, eligible students must be a member of a household whose average annual income in the three years prior to the initial receipt of the scholarship was not greater than 175 percent of the maximum income for receipt of the federal free and reduced price lunch program. Defines tuition and fees to mean the cost of educating an enrolled student including operational, capital facility, and transportation costs. Amends Section 4 such that a participating school may be a Category I, II, III, or IV school. Requires participating schools to annually administer state assessments or nationally recognized norm-referenced tests that measure education progress in grades that require testing under Tennessee's accountability system. Authorizes the Commissioner of Education to waive the submission of a participating school's financial information report. Requires participating schools to only offer services to special education students that would normally be offered services during the normal course of business and parents must give written acceptance of such services. Amends Section 7 and authorizes a participating school to charge additional tuition and fees to students, no more than 10 percent of the total scholarship amount, provided the student's income is equal to or less than the maximum income allowed under the federal free and reduced price lunch program. Amends Section 8 and places a cap on the scholarship program at 10,000 scholarships for FY13-14; 20,000 scholarships for FY14-15; 10,000 scholarships for FY15-16; and removes the scholarship cap for FY16-17 and subsequent fiscal years. Authorizes local education agencies to adopt eligibility qualifications that will authorize students with household incomes above 175 percent of the federal free and reduced price lunch program income guidelines to receive an equal opportunity scholarship.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase State Expenditures - \$338,100

Other Fiscal Impact – There will be recurring shifts of state and local BEP funding from local education agencies to non-public participating schools. Approximately \$31,685,000 will shift in FY13-14; \$64,850,000 will shift in FY14-15; and an amount exceeding \$66,570,000 will shift in FY15-16 and subsequent fiscal years.

Assumptions for the bill as amended:

- DOE estimates four new staff positions will be required to administer the program; one program administrator and three assistant program administrators.
- Based on information provided by DOE, the program administrator's salary is estimated to be \$80,000 and benefits are estimated to be \$18,023; a total recurring increase in state expenditures of \$98,023 (\$80,000 + \$18,023). An assistant program administrator's salary is estimated to be \$60,000 and benefits are estimated to be \$15,017; a total recurring increase in state expenditures of \$225,051 [(\$60,000 + \$15,017) x 3]. The total recurring increase in state expenditures for all four positions is estimated to be \$323,074 (\$98,023 + \$225,051).
- Based on information provided by DOE, additional recurring state expenditures of \$15,000 for administrative costs, printing, communications, travel, and miscellaneous expenses.
- The total recurring increase in state expenditures is estimated to be \$338,074 (\$323,074 + \$15,000).
- The scholarship program shall begin in the fall of 2013.
- According to data provided by the Comptroller, initial participation levels and growth in subsequent fiscal years for similar programs in other states have ranged from two to 28 percent.
- Based on data from the federal census, DOE estimates that 67 percent of Tennessee families have a household income of \$67,000 or less, which is 175 percent of the income limit for free and reduced price lunches for a family of four.
- The exact number of annually participating students is unknown and dependent upon multiple unknown factors. However, it is reasonably estimated that participation will be at least 50 percent of the cap in FY13-14 and FY14-15 and expand at an unknown rate in FY15-16 and subsequent fiscal years when the scholarship cap is lifted.
- In FY13-14, it is estimated that 5,000 students will participate; in FY14-15, 10,000 students will participate; in FY15-16 and subsequent fiscal years, more than 10,000 will participate.
- The following scholarship amounts by fiscal year have been provided by DOE: in FY13-14, \$6,337 per pupil; in FY14-15, \$6,485 per pupil; in FY15-16 and subsequent fiscal years, an amount exceeding \$6,657 per pupil.
- In FY13-14, an estimated \$31,685,000 (\$6,337 x 5,000) will shift from LEAs to participating schools.

- In FY14-15, an estimated \$64,850,000 ($\$6,485 \times 10,000$) will shift from LEAs to participating schools.
- In FY15-16 and subsequent years, an amount estimated to exceed \$66,570,000 ($\$6,657 \times 10,000$) will shift from LEAs to participating schools.
- A majority of LEAs are currently funding their students above and beyond the local BEP match requirement. This amount varies widely by LEA, but according to the DOE, the average amount is \$1,180 per pupil.
- Each year, students leave and enter LEAs. As a result, LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population.
- LEAs will be able to use retained funding to offset any increase in local expenditures.
- Based on information provided by DOE, the LEA retention per pupil is estimated as follows: in FY13-14, \$1,210 per pupil; in FY14-15, \$1,240 per pupil; in FY15-16 and subsequent fiscal years, an amount exceeding \$1,271 per pupil.
- In FY13-14, an estimated \$6,050,000 ($\$1,210 \times 5,000$) will be retained by LEAs.
- In FY14-15, an estimated \$12,400,000 ($\$1,240 \times 10,000$) will be retained by LEAs.
- In FY15-16 and subsequent fiscal years, LEAs will retain an amount estimated to exceed \$12,710,000 ($\$1,271 \times 10,000$).
- As the program grows, LEAs may be able to reduce local funding; however, any decrease cannot be reasonably quantified.
- If tuition and fees charged by a participating non-public school are less than the BEP per pupil scholarship, there may be savings to the state and local government; however, any decrease cannot be reasonably quantified.
- It is estimated that new students enrolling in Tennessee for the first time, except for kindergarten enrollees or transfers from other states, will not significantly increase state and local BEP expenditures.
- LEAs will not be required to provide transportation to participating schools.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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